

Message Text

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INFO OCT-01 ISO-00 FRB-02 TRSE-00 FEAE-00 AID-20 CEA-02

CIAE-00 COME-00 EB-11 EA-11 INR-10 IO-14 NEA-14

NSAE-00 RSC-01 OPIC-12 SP-03 CIEP-02 LAB-06 SIL-01

SWF-02 OMB-01 PA-04 PRS-01 USIA-15 INT-08 SS-20 NSC-07

L-03 DRC-01 /197 W

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R 061638Z JUN 74

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TO SECSTATE WASH DC 2918

UNCLAS SECTION 01 OF 02 OECD PARIS 13731

DEPT PASS FRB FOR RALPH BRYANT AND TREAS FOR SCHOTTA

E.O.11652: N/A

TAGS: EFIN, OECD

SUBJECT: OECD MEETING OF BALANCE OF PAYMENTS OIL EXPERTS

1. DISCUSSION OF BALANCE OF PAYMENTS OIL EXPERTS CONCENTRATED ON OUTLOOK FOR REVENUES AND EXPENDITURES OF OIL PRODUCERS IN 1973-80 PERIOD. SECRETARIAT OFFERED REVISED PROJECTION (TABLE 3 OF CPE/WP3(74)9) ALLOWING FOR SOMEWHAT MORE REVENUE RELATIVE TO EXPENDITURES THAN IN ORIGINAL, BUT STILL SHOWING RAPID APPROACH TOWARD ELIMINATION OF OPEC CURRENT ACCOUNT BALANCE AFTER 1977. SECRETARIAT VIEWED EXERCISE AS ATTEMPT TO INDICATE TO WP-3 THE TIME PROFILE OF LARGE OPEC SURPLUSES AND THE SIZE OF ACCUMULATED OPEC ASSETS AS CURRENT ACCOUNT APPROACHED BALANCE.

2. IN DISCUSSION OF BASIS FOR SECRETARIAT ESTIMATES, THE REVENUE DATA REFLECTED PROJECTIONS OF THE LONG-TERM OECD OIL COMMITTEE BASED ON NO CHANGE IN TERMS OF TRADE AND AN OECD DEMAND REACTION THAT, AFTER A FALL IN 1974, ALLOWED

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AN INCREASE OVER 1973 LEVELS IN 1975-78, AND THEN A

DECLINE BY 1980 TO 90 PERCENT OF THE 1973 LEVEL. SOME INCREASE IN LDC DEMAND WAS ALLOWED FOR. ON THE EXPENDITURE (ABSORPTION) SIDE, THE SECRETARIAT WAS FRANKLY OPERATING ON THE BASIS OF NEWS REPORTS AND CONJECTURE.

3. EARLY IN DISCUSSION, AND AGAIN AT CONCLUSION, POINT WAS MADE BY U.S. AND OTHER DELEGATIONS THAT SECRETARIAT EXERCISE WAS NOT A BASE, OR CENTRAL, CASE, BUT RATHER ONLY ONE OF MANY POSSIBLE SCENARIOS. FIRST ROUND OF COUNTRY COMMENTS COVERED ESTIMATES OF OPEC REVENUES. WIDE RANGE OF OPINION, BASED ON JUDGMENTS ABOUT OPEC PRICE STRATEGY. UK DELEGATE NOTED THAT ONE POSSIBILITY WOULD BE HIGH PRICES UNTIL SUBSTITUTES APPEARED SERIOUS THREAT, THEN LOWERED PRICES TO FRUSTRATE SUBSTITUTION. UK TREASURY STUDIES INDICATED THAT WITH LOW ELASTICITIES EVEN WITH HIGH PRICES REVENUE MAY DIP BY 1980, BUT WOULD RISE THEREAFTER IF TIME PERIOD EXTENDED. MARRIS NOTED, IN BILATERAL DISCUSSION, THAT DEMAND REACTION REFLECTED IN REVENUE ESTIMATE INCLUDED IMPLICITLY AN ASSUMPTION THAT ABOUT 40 PERCENT OF THE SUGGESTED CHANGE IN DEMAND CAME FROM NON-PRICE FACTORS -- POLICIES TO REDUCE USE OF OIL AND DEVELOP SUBSTITUTES. U.S. DEL NOTED THAT AT CURRENT PRICES AND PRODUCTION LEVELS REVENUES OF OPEC WERE ALREADY ABOVE SECRETARIAT ESTIMATES (\$94 BILLION IN 1974). GROUP WAS NOT PRESSED TO REACH CONSENSUS. JUDGMENTS WOULD PROBABLY VARY WIDELY BASED ON EXPECTATIONS OF VIABILITY OF THE OPEC CARTEL AND THE ELASTICITY OF DEMAND.

4. SECOND ROUND OF EXPERT JUDGMENTS RELATED TO IMPORT DEMAND OF OPEC COUNTRIES. U.S. DEL NOTED U.S. STUDIES THAT SUGGESTED A LEVEL OF IMPORTS ONLY HALF THE SECRETARIAT ESTIMATE. GERMAN DEL NOTED LARGE PERCENTAGE INCREASE IN GERMAN EXPORTS IN FIRST QUARTER (SMALL ABSOLUTE AMOUNTS), AND SWEDEN AND SWITZERLAND ALSO NOTED INCREASES. MUCH OF THE INCREASE SEEMED TO BE RELATED TO PRICES. MOST COUNTRIES HAD NO CURRENT INFORMATION AND AGREED TO FURNISH SOME DATA BY SEPTEMBER. MORE GENERALLY, U.S. DEL NOTED, AND OTHERS AGREED, THAT POSSIBILITY OF RAPID INCREASE IN PURCHASES WAS LIMITED BY FACT THAT

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REVENUES WILL ACCRUE TO GOVERNMENTS, WITH SLOW REACTIONS, RATHER THAN TO INDIVIDUALS. MOST PARTICIPANTS NOTED BOTTLENECKS IN OPEC DEMAND FOR INDUSTRIAL GOODS, INCLUDING NEED TO RECRUIT TECHNICIANS, AND GREAT UNCERTAINTIES IN DEMAND FOR CONSUMPTION GOODS. ONE OF GERMAN EXPERTS WAS OPTIMISTIC BASED ON RISE IN EXPORTS IN EARLY 1974, BUT ANOTHER RAISED QUESTIONS ABOUT BASIS FOR ESTIMATING EFFECTIVE OPEC DEMAND AS AGAINST POTENTIAL RELATED TO

REVENUES.

5. SECRETARIAT NOTED THAT RISE IN OPEC DEMAND WOULD NOT BE SIGNIFICANT FACTOR FOR MACRO-DEMAND IN OECD, BUT DELEGATES NOTED IMPACTS ON SPECIFIC INDUSTRIES AND COUNTRIES WOULD BE MORE SIGNIFICANT. IN GENERAL, DELE-

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SWF-02 OMB-01 PA-04 PRS-01 USIA-15 INT-08 SS-20 NSC-07

L-03 DRC-01 /197 W

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R 061638Z JUN 74

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GATES NOTED THAT CONNECTION BETWEEN RISING REVENUES AND EXPENDITURES FOR IMPORTS MIGHT NOT BE CLOSE IN MANY COUNTRIES, AND THAT COUNTRIES WITH SMALLER OIL RESERVES WOULD PREFER NOT TO OVERSPEND EARLY AND HAVE PROBLEM LATER.

6. REPRESENTATIVES OF IMF AND IBRD NOTED THAT THEIR WORK ON OPEC DEMANDS WAS INCOMPLETE, BUT SUGGESTED SECRETARIAT MIGHT BE ON HIGH SIDE. KUWAIT AN EXAMPLE OF INABILITY TO RAISE EXPENDITURE LEVELS WHEN INTERNAL DEMAND LOW. MOST DELEGATES APPEAR TO PREFER A LOWER OPEC IMPORT PRO-PENSITY THAN USED BY SECRETARIAT. U.S. NOTED, AT CLOSE,

THAT RANGE OF UNCERTAINTIES WAS WIDE AFTER 1977, AND
REPORT TO WP-3 SHOULD INCLUDE THE POSSIBILITY OF MUCH
SLOWER AND SMALLER REDUCTION IN OPEC CURRENT SURPLUS TO
1980. MARRIS AGREED TO CONVEY A RANGE OF JUDGMENTS TO
WP-3.

7. GROUP WILL CONTINUE TO WORK THROUGH YEAR TO REFINE
THESE ESTIMATES AND MAY MEET AGAIN, IF USEFUL FOR WP-3,
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM, EXPENDITURES, BALANCE OF PAYMENTS, CONSULTANTS
Control Number: n/a
Copy: SINGLE
Draft Date: 06 JUN 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974OECDP13731
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740145-0908
From: OECD PARIS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740669/aaaachkg.tel
Line Count: 185
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: boyleja
Review Comment: n/a
Review Content Flags:
Review Date: 26 AUG 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <26 AUG 2002 by PhilliR0>; APPROVED <08 JAN 2003 by boyleja>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: OECD MEETING OF BALANCE OF PAYMENTS OIL EXPERTS
TAGS: EFIN, OECD, OPEC
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005